

Message Text

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46

ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 L-03

H-03 DODE-00 PA-03 USIA-15 PRS-01 RSR-01 /160 W

----- 011653

R 211555Z AUG 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6953

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

C O N F I D E N T I A L BONN 11927

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: DECLINE IN YIELD OF GERMAN BONDS

REF: BONN A-539, BONN A-462 AND BONN A-442

1. GERMAN DOMESTIC BOND PRICES HAVE INCREASED
RAPIDLY DURING THE PAST WEEK, REINFORCING THE TREND
TOWARDS HIGHER BOND PRICES PREVAILING SINCE THE END
OF JULY. THE FAZ AVERAGE YIELD OF OUTSTANDING
DOMESTIC 8 PERCENT BONDS HAD FALLEN FROM A HIGH OF
10.63 PERCENT ON JULY 30 TO 10.50 ON AUGUST 8,
BEFORE DIPPING SHARPLY TO 10.18 PERCENT ON AUGUST 20.
THE YIELD OF 7 PERCENT DOMESTIC BONDS FELL IN THE
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SAME PERIOD FROM 10.62 PERCENT TO 10.51 PERCENT, AND

SUBSEQUENTLY TO 10.19 PERCENT. RECENTLY ISSUED 10 PERCENT COUPON DOMESTIC BONDS ARE CURRENTLY TRADING ABOVE THEIR ISSUE PRICES OF 100. FOR EXAMPLE, THE SECOND TRANCHE OF THE STABILITY LOAN (SEE BONN A-462), THE POSTAL LOAN (SEE BONN A-442) AND THE FEDERAL RAILWAY LOAN (SEE BONN A-539) ARE TRADING AT ABOUT 101.50. THE RAILWAY LOAN WAS REPORTEDLY HEAVILY OVERSUBSCRIBED.

2. THE RAPID DECLINE IN THE BOND YIELD APPEARS TO REFLECT MARKET SPECULATION THAT THE PEAK IN THE BOND YIELD HAS BEEN REACHED, OR EVEN OVERCOME. THIS SPECULATION IS APPARENTLY BASED ON THE BELIEF THAT THE BUNDESBANK WILL NOT TIGHTEN ITS RESTRICTIVE MONETARY POLICY ANY FURTHER.

3. BUNDESBANK OFFICIALS HAVE PRIVATELY TOLD US THAT THEY ENGAGED IN OPEN MARKET OPERATIONS LAST WEEK TO KEEP BOND YIELDS FROM FALLING TOO RAPIDLY. THE BUNDESBANK REPORTS THAT IT SOLD APPROXIMATELY DM 0.1 BILLION OF BONDS ON THE OPEN MARKET DURING THE AUGUST 8-15 PERIOD.
CASH

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